

**REPORT OF THE AUDIT OF THE  
HARLAN COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2008**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Joseph A. Grieshop, Harlan County Judge/Executive

Members of the Harlan County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Harlan County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements.

We engaged Ross & Company, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated Harlan County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure





**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**HARLAN COUNTY FISCAL COURT**

**June 30, 2008**

Ross & Company, PLLC has completed the audit of the Harlan County Fiscal Court for fiscal year ended June 30, 2008.

We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Harlan County, Kentucky. We have issued an adverse opinion on the aggregate discretely presented component units because a material component unit was omitted. In accordance with OMB Circular A-133 we have issued an unqualified opinion on compliance for the federal programs.

**Financial Condition:**

The fiscal court had net assets of \$22,603,399 in its governmental activities as of June 30, 2008. The fiscal court had unrestricted net assets of \$5,160,537 in its governmental activities as of June 30, 2008. The business-type activities had net cash and cash equivalents of \$101,326 with total net assets of \$153,653. The fiscal court had total debt principal as of June 30, 2008 of \$18,884,679 with \$558,228 due within the next year.

**Report Comments:**

2008-01	The County Should Improve Their Internal Control Procedures
2008-02	Material Prior Period Adjustment
2008-03	Jail Lacks Complete Documentation Of Expenditures
2008-04	Invoices Should Have Approval Prior To Payment
2008-05	Segregation Of Duties Should Be Strengthened In Regard To The Jail Canteen
2008-06	The County Should Have Better Controls Over Voided Checks
2008-07	The County Should Improve Procedures Over Expenditures and Cash Disbursements
2008-08	The County Should Ensure That Sublease Agreements Are Performed When Applicable
2008-09	Outstanding Checks In Excess Of Six Months Old Should Be Voided And Reissued If Necessary
2008-10	The County Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements, Inventory Capital Assets Periodically, And Review Insurance Policy Coverage Thresholds
2008-11	The County Should Strengthen Controls Over Employee Timesheets
2008-12	No Annual Accounting Presented To The Fiscal Court
2008-13	Invoices Lack Evidence Of Proper Approval
2008-14	The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary
2008-15	The County Should Comply With KRS 64.140, Which Requires That Invoices Be Paid Within 30 Working Days
2008-16	The County Should Require All Employees To Maintain Timesheets
2008-17	County Employees Should Be Properly Bonded Per KRS 68.210
2008-18	County Judge/Executive Or Designated Person Should Keep And Maintain Required Records
2008-19	The County Should Present Complete And Accurate 4 <sup>th</sup> Quarter Reports
2008-20	The Jailer Should Have His Name Removed From County Vehicles
2008-21	Jailer Should Prepare And Submit An Annual Canteen Report To The Fiscal Court

**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**HARLAN COUNTY FISCAL COURT**  
**June 30, 2008**  
**(Continued)**

2008-22	The County Should Update Employee Personnel Files And Maintain Current And Complete Personnel Files
2008-23	Policies & Procedures Manual
2008-24	Tucker Guthrie Airport Board Does Not Have A Written Security Agreement

**Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities.

The Jail Canteen deposits as of June 30, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$9,952

The Jail Canteen deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Jail Canteen deposits in accordance with the security agreement.

The Tucker Guthrie Airport, a discretely presented component unit, deposits as of October 11, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$53,573

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Joseph A. Grieshop, Harlan County Judge/Executive

Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Harlan County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Harlan County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Harlan County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Harlan County Fiscal Court has not included the Harlan County Industrial Authority, a material discretely presented component unit, in the financial statements. The omission of this discretely presented component unit represents a departure from Governmental Accounting Standards Board Statement 14 as amended by 39 The Financial Reporting Entity. The amount by which this omission affects assets, liabilities and net assets of the aggregate discretely presented component units is not reasonably determinable.

In our opinion, because of the omission of the Harlan County Industrial Authority, a material discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of Harlan County, Kentucky as of June 30, 2008, or the changes in financial position, thereof, for the year then ended, in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Harlan County, Kentucky, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky

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The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harlan County, Kentucky's basic financial statements. The accompanying combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 10, 2009 on our consideration of Harlan County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- |         |  |
|---------|--|
| 2008-01 | The County Should Improve Their Internal Control Procedures  |
| 2008-02 | Material Prior Period Adjustment   |
| 2008-03 | Jail Lacks Complete Documentation Of Expenditures  |
| 2008-04 | Invoices Should Have Approval Prior To Payment   |
| 2008-05 | Segregation Of Duties Should Be Strengthened In Regard To The Jail Canteen   |
| 2008-06 | The County Should Have Better Controls Over Voided Checks  |
| 2008-07 | The County Should Improve Procedures Over Expenditures and Cash Disbursements  |
| 2008-08 | The County Should Ensure That Sublease Agreements Are Performed When Applicable  |
| 2008-09 | Outstanding Checks In Excess Of Six Months Old Should Be Voided And Reissued If Necessary  |
| 2008-10 | The County Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements, Inventory Capital Assets Periodically, And Review Insurance Policy Coverage Thresholds |
| 2008-11 | The County Should Strengthen Controls Over Employee Timesheets   |
| 2008-12 | No Annual Accounting Presented To The Fiscal Court   |
| 2008-13 | Invoices Lack Evidence Of Proper Approval  |

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- 2008-14 The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary
- 2008-15 The County Should Comply With KRS 64.140, Which Requires That Invoices Be Paid Within 30 Working Days
- 2008-16 The County Should Require All Employees To Maintain Timesheets
- 2008-17 County Employees Should Be Properly Bonded Per KRS 68.210
- 2008-18 County Judge/Executive Or Designated Person Should Keep And Maintain Required Records
- 2008-19 The County Should Present Complete And Accurate 4<sup>th</sup> Quarter Reports
- 2008-20 The Jailer Should Have His Name Removed From County Vehicles
- 2008-21 Jailer Should Prepare And Submit An Annual Canteen Report To The Fiscal Court
- 2008-22 The County Should Update Employee Personnel Files And Maintain Current And Complete Personnel Files
- 2008-23 Policies & Procedures Manual
- 2008-24 Tucker Guthrie Airport Board Does Not Have A Written Security Agreement

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC  
Certified Public Accountants

June 10, 2009

HARLAN COUNTY OFFICIALS

For The Year Ended June 30, 2008

**Fiscal Court Members:**

Joseph A. Grieshop	County Judge/Executive
Paul Caudwell	Magistrate
Chad Brock	Magistrate
David Kennedy	Magistrate
Jim Roddy	Magistrate
Jimmy W. Roark	Magistrate

**Other Elected Officials:**

Fred Busroe	County Attorney
Curtis Stallard	Jailer
Wanda Clem	County Clerk
Paul Williams	Circuit Court Clerk
Marvin Lipford	Sheriff
Felicia Wooten	Property Valuation Administrator
Philip Bianchi	Coroner

**Appointed Personnel:**

Ryan Creech	County Treasurer
Genese Brewer	Finance Officer
Alice Hensley	Accounts Payable
Margie Shope	Accounts Payable
Ollie McGregor	Payroll Clerk

**HARLAN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2008**



**HARLAN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

June 30, 2008

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Unit
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 8,524,934	\$ 101,326	\$ 8,626,260	\$ 13,602
Notes Receivable	243,714		243,714	
Total Current Assets	8,768,648	101,326	8,869,974	13,602
Noncurrent Assets:				
Notes Receivable	219,274		219,274	
Capital Assets - Net of Accumulated Depreciation				
Land and Land Improvements	1,567,423		1,567,423	458,524
Other Land Improvements				232,602
Buildings	18,600,231		18,600,231	401,701
Equipment	178,497	36,175	214,672	
Vehicles	558,373	16,152	574,525	
Infrastructure	11,595,632		11,595,632	
Total Noncurrent Assets	32,719,430	52,327	32,771,757	1,092,827
Total Assets	41,488,078	153,653	41,641,731	1,106,429
<b>LIABILITIES</b>				
Current Liabilities:				
General Obligation Bonds	160,000		160,000	
Revenue Bonds	315,000		315,000	
Financing Obligations	83,228		83,228	
Total Current Liabilities	558,228		558,228	
Noncurrent Liabilities:				
General Obligation Bonds	7,880,000		7,880,000	
Revenue Bonds	7,370,000		7,370,000	
Financing Obligations	3,076,451		3,076,451	
Total Noncurrent Liabilities	18,326,451		18,326,451	
Total Liabilities	18,884,679		18,884,679	
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	16,713,666	52,327	16,765,993	1,092,827
Restricted For:				
Debt Service	729,196		729,196	
Unrestricted	5,160,537	101,326	5,261,863	13,602
Total Net Assets	\$ 22,603,399	\$ 153,653	\$ 22,757,052	\$ 1,106,429

The accompanying notes are an integral part of the financial statements.

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**HARLAN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2008**

**HARLAN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 4,648,982	\$ 60,580	\$ 1,698,269	
Protection to Persons and Property	2,020,959	38,186	1,191,928	
General Health and Sanitation	3,998,045		79,646	
Social Services	1,554,400			
Recreation and Culture	854,412		48,184	
Roads	2,700,891		5,866,640	
Airports	525,985			510,937
Debt Service	809,703			
Capital Projects	388,158			
Total Governmental Activities	17,501,535	98,766	8,884,667	510,937
Business-type Activities:				
Jail Canteen	774,516	816,786		
Total Business-type Activities	774,516	816,786		
Total Primary Government	\$ 18,276,051	\$ 915,552	\$ 8,884,667	\$ 510,937
Component Units:				
Tucker Guthrie Aiport Board	\$ 30,109	\$ 12,610	\$	\$ 525,984
Total Component Units	\$ 30,109	\$ 12,610	\$ 0	\$ 525,984

**General Revenues:**

Taxes:  
    Real Property Taxes  
    Personal Property Taxes  
    Motor Vehicle Taxes  
    License and Permits  
    Other Taxes  
In Lieu Tax Payments  
Excess Fees  
Miscellaneous Revenues  
Interest  
  
Total General Revenues  
Change in Net Assets  
Net Assets - Beginning (Restated)  
  
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**HARLAN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2008**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>			
<b>Primary Government</b>			
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>	<b>Component Unit</b>
\$ (2,890,133)	\$	\$ (2,890,133)	\$
(790,845)		(790,845)	
(3,918,399)		(3,918,399)	
(1,554,400)		(1,554,400)	
(806,228)		(806,228)	
3,165,749		3,165,749	
(15,048)		(15,048)	
(809,703)		(809,703)	
(388,158)		(388,158)	
(8,007,165)		(8,007,165)	
	42,270	42,270	
	42,270	42,270	
(8,007,165)	42,270	(7,964,895)	
			508,485
			508,485
1,359,711		1,359,711	
692,239		692,239	
268,772		268,772	
246,414		246,414	
1,408,792		1,408,792	
1,693		1,693	
807,721		807,721	
221,172		221,172	
138,100		138,100	
5,144,614		5,144,614	
(2,862,551)	42,270	(2,820,281)	508,485
25,465,950	111,383	25,577,333	597,944
\$ 22,603,399	\$ 153,653	\$ 22,757,052	\$ 1,106,429

The accompanying notes are an integral part of the financial statements.

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**HARLAN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2008**

**HARLAN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2008**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>	<b>Local Government Economic Development Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 3,472,723	\$ 743,493	\$	\$ 2,098,705	\$ 793,901
Total Assets	<u>3,472,723</u>	<u>743,493</u>	<u>\$ 0</u>	<u>2,098,705</u>	<u>793,901</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	\$ 22,137	\$ 68,177	\$ 25,680	\$ 25,907	\$ 8,119
Unreserved:					
General Fund	3,450,586				
Special Revenue Funds		675,316	(25,680)	2,072,798	785,782
Debt Service Fund					
Fund Balances	<u>\$ 3,472,723</u>	<u>\$ 743,493</u>	<u>\$ 0</u>	<u>\$ 2,098,705</u>	<u>\$ 793,901</u>

The accompanying notes are an integral part of the financial statements.

**HARLAN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2008**  
**(Continued)**

<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<u>\$ 1,416,112</u>	<u>\$ 8,524,934</u>
<u>1,416,112</u>	<u>8,524,934</u>

\$ 1,719	\$ 151,739
\$	3,450,586
685,197	4,193,413
<u>729,196</u>	<u>729,196</u>
<u>\$ 1,416,112</u>	<u>\$ 8,524,934</u>

**Reconciliation Of The Balance Sheet - Governmental Funds To The Statement Of Net Assets:**

Total Fund Balances	\$ 8,524,934
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Notes Receivable	462,988
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	70,556,745
Accumulated Depreciation	(38,056,589)
Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds	
Revenue Bonds	(7,685,000)
Financing Obligations	(3,159,679)
General Obligation Bonds	<u>(8,040,000)</u>
Net Assets Of Governmental Activities	<u>\$ 22,603,399</u>

The accompanying notes are an integral part of the financial statements.

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**HARLAN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

**HARLAN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>
<b>REVENUES</b>				
Taxes	\$ 3,347,815	\$	\$	\$
In Lieu Tax Payments	36	1,657		
Excess Fees	807,721			
Licenses and Permits	246,384			
Intergovernmental	1,028,323	1,532,419	1,191,928	2,665,415
Charges for Services	60,580		38,186	
Miscellaneous	98,183	1,353	120,305	500
Interest	53,795	9,633		35,091
Total Revenues	<u>5,642,837</u>	<u>1,545,062</u>	<u>1,350,419</u>	<u>2,701,006</u>
<b>EXPENDITURES</b>				
General Government	2,613,167			16,833
Protection to Persons and Property	44,059		1,420,185	46,901
General Health and Sanitation	3,408,884			393,642
Social Services	28,131			
Recreation and Culture				469,215
Roads		1,221,843		
Airports	525,985			
Debt Service	134,048			
Capital Projects	1,883		66,014	
Administration	1,069,505	287,760	376,959	154,309
Total Expenditures	<u>7,825,662</u>	<u>1,509,603</u>	<u>1,863,158</u>	<u>1,080,900</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(2,182,825)</u>	<u>35,459</u>	<u>(512,739)</u>	<u>1,620,106</u>
<b>Other Financing Sources (Uses)</b>				
Revenue Bond Proceeds	2,944,498			
Transfers From Other Funds		632,899	512,739	
Transfers To Other Funds	(480,747)			(1,168,192)
Total Other Financing Sources (Uses)	<u>2,463,751</u>	<u>632,899</u>	<u>512,739</u>	<u>(1,168,192)</u>
Net Change in Fund Balances	280,926	668,358		451,914
Fund Balances - Beginning (Restated)	3,191,797	75,135		1,646,791
Fund Balances - Ending	<u>\$ 3,472,723</u>	<u>\$ 743,493</u>	<u>\$ 0</u>	<u>\$ 2,098,705</u>

The accompanying notes are an integral part of the financial statements.

**HARLAN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2008**  
**(Continued)**

<b>Local Government Economic Development Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$	\$ 381,699	\$ 3,729,514
		1,693
		807,721
		246,384
2,272,544	710,946	9,401,575
		98,766
		220,341
	34,471	132,990
<u>2,272,544</u>	<u>1,127,116</u>	<u>14,638,984</u>
		2,630,000
24,986	301,608	1,837,739
146,186	41,000	3,989,712
1,525,487		1,553,618
352,187		821,402
55,593		1,277,436
		525,985
832	1,176,746	1,311,626
320,261		388,158
	10,583	1,899,116
<u>2,425,532</u>	<u>1,529,937</u>	<u>16,234,792</u>
<u>(152,988)</u>	<u>(402,821)</u>	<u>(1,595,808)</u>
		2,944,498
3,300	510,767	1,659,705
	(10,766)	(1,659,705)
<u>3,300</u>	<u>500,001</u>	<u>2,944,498</u>
(149,688)	97,180	1,348,690
943,589	1,318,932	7,176,244
<u>\$ 793,901</u>	<u>\$ 1,416,112</u>	<u>\$ 8,524,934</u>

The accompanying notes are an integral part of the financial statements.

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**HARLAN COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**



**HARLAN COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds \$ 1,348,690

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	223,570
Depreciation Expense	(1,985,230)
Asset Disposal, Net Value	(7,006)

Debt Proceeds Provide a Current Financial Resource to the Governmental Funds. While principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions have no effect on net assets and have been eliminated from the Statement of Activities.

Financing Obligation Proceeds	(2,944,498)
General Obligation Bond Payments	155,000
Revenue Bond Payments	305,000
Financing Obligations Payments	<u>41,923</u>

Change in Net Assets of Governmental Activities	<u><u>\$ (2,862,551)</u></u>
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**HARLAN COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2008**



**HARLAN COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2008**

	<b>Business-Type Activities - Enterprise Funds</b>
	<b>Jail Canteen Fund</b>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 101,326
Total Current Assets	<u>101,326</u>
Noncurrent Assets:	
Capital Assets:	
Equipment	61,865
Less Accumulated Depreciation	<u>(9,538)</u>
Total Noncurrent Assets	<u>52,327</u>
Total Assets	<u>153,653</u>
<b>Net Assets</b>	
Invested in Capital Assets,	52,327
Net of Related Debt	
Restricted For:	
Amounts Held In Custody For Others	5,348
Unrestricted	<u>95,978</u>
Total Net Assets	<u><u>\$ 153,653</u></u>

The accompanying notes are an integral part of the financial statements.

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**HARLAN COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**



**HARLAN COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 228,303
Charges for Services	1,800
Total Operating Revenues	<u>230,103</u>
<b>Operating Expenses</b>	
Cost of Sales	155,163
Sales Tax	10,041
Equipment & Equipment Repair	6,898
Education and Recreation	2,494
Supplies	11,891
Depreciation	5,568
Miscellaneous	1,222
Total Operating Expenses	<u>193,277</u>
Operating Income (Loss)	<u>36,826</u>
<b>Non Operating Revenues</b>	
Interest Income	96
Inmate Deposits	574,622
Other Inmate Deposits	11,965
Non Operating Revenues	<u>586,683</u>
<b>Non Operating Expenditures</b>	
Inmate Fees Paid	293,964
Inmate Commissary Purchases	228,303
Inmate Refunds	58,972
Non Operating Expenditures	<u>581,239</u>
Non Operating Income (Loss)	<u>5,444</u>
Net Income	<u>42,270</u>
Total Net Assets - Beginning (Restated)	<u>111,383</u>
Total Net Assets - Ending	<u><u>\$ 153,653</u></u>

The accompanying notes are an integral part of the financial statements.

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**HARLAN COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**



**HARLAN COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Cash Flows From Operating Activities</b>	
Receipts From Inmates	\$ 230,103
Cost of Sales	(155,163)
Sales Tax	(10,041)
Equipment & Equipment Repair	(6,898)
Education and Recreation	(2,494)
Supplies	(11,891)
Miscellaneous	(1,222)
Net Cash Provided By Operating Activities	<u>42,394</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Receipts From Inmates	574,622
Other Receipts From Inmates	11,965
Inmate Fees Paid	(293,964)
Inmate Commissary Purchases	(228,303)
Inmate Refunds	(58,972)
Net Cash Provided By Noncapital Financing Activities	<u>5,348</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Equipment Purchases	(17,749)
Net Cash (Used) Provided By Capital and Related Financing Activities	<u>(17,749)</u>
<b>Cash Flows From Investing Activities</b>	
Interest Earned	96
Net Cash Provided By Investing Activities	<u>96</u>
Net Increase (Decrease) in Cash and Cash Equivalents	30,089
Cash and Cash Equivalents - July 1, 2007	<u>71,237</u>
Cash and Cash Equivalents - June 30, 2008	<u><u>\$ 101,326</u></u>

The accompanying notes are an integral part of the financial statements.

**HARLAN COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2008**  
**(Continued)**

	<b>Business-Type Activities - Enterprise Fund</b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Operating Income (Loss)	\$ 36,826
Plus: Depreciation Expense	<u>5,568</u>
Net Cash Provided By Operating Activities	<u><u>\$ 42,394</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Harlan County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

**Blended Component Units**

The following legally separate organization provides services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**Harlan County Justice Center Public Properties Corporation**

Harlan County Justice Center Public Properties Corporation is a legally separate entity established to provide long-term debt service for the debt service associated with the construction of the Judicial Center Building. Harlan County Justice Center Public Properties Corporation's governing body consists entirely of fiscal court members. Therefore, management must include the Harlan County Justice Center Public Properties Corporation as a component unit, and its financial activity is blended with that of the fiscal court.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Discretely Presented Component Unit

The component unit column in the combined financial statements includes the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize these organizations' separateness from the fiscal court's primary government.

**Tucker Guthrie Airport Board**

The Harlan County Fiscal Court established the Tucker Guthrie Airport Board. The board is responsible for the building, expansion, and maintenance of an airport within the county. The fiscal court's objective is that having an airport within the county will promote industrial development to the county. Therefore, management must include the board as a component unit, and the board's financial activity has been discretely presented with that of the Fiscal Court.

**Harlan County Industrial Development Authority**

Harlan County Fiscal Court (Fiscal Court) established the Harlan County Industrial Development Authority (IDA) to promote industrial growth in Harlan County. Harlan County Fiscal Court has the authority to appoint a voting majority of the Authority's board. The Authority is fiscally dependent on the Fiscal Court because the Fiscal Court has assumed debt owed by the Authority and is making the payments upon the debt. This fiscal dependency requires the Fiscal Court to include the Authority as a component unit. Financial information for the Authority has not been included in Harlan County's financial statements

**C. Harlan County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Harlan County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Harlan County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds**

The primary government reports the governmental funds using the current resources measurement focus and modified cash basis of accounting. Revenues are reported when received and expenditures are reported when paid.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government (DLG) requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. DLG requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. DLG requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance (LGEA) Fund - The primary source of this fund is coal and severance tax grants from the state. These funds are to be spent on priority expenditure categories as specified by statute. DLG requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Development (LGED) Fund - The primary source of this fund through development grant money in which the expenditures are legally restricted for specific purposes.

The primary government also has the following non-major funds: Federal Grants Fund, Jail Construction Fund, Sinking Fund, 911 Fund, Harlan County Justice Center Public Properties Corporation Fund, and Harlan County Detention Center Public Properties Corporation Fund.

**Special Revenue Funds:**

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Federal Fund, Local Government Economic Development Fund, and 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Capital Project Fund:

The Jail Construction Fund is used to account for the construction of the Detention Center.

Debt Service Funds:

Sinking Fund and Harlan County Justice Center Public Properties Corporation Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of long-term debt principal and interest.

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**Presentation of Component Unit**

The financial statements present the following major discretely presented component unit:

Tucker Guthrie Airport Board

The component unit is presented on the Statement of Net Assets and Statement of Activities in a separate total column labeled "Component Unit" to emphasize this organization's separateness from the fiscal court's primary government.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings	\$ 50,000	10-75
Building Improvements	\$ 50,000	10-40
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5
Infrastructure	\$ 30,000	10-50

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations**

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Budgetary Information (Continued)**

A formal budget was not adopted for the Public Properties Corporation. This corporation accounts for the debt associated with financing the construction of the Judicial Center and Detention Center. The Department for Local Government does not require the fiscal court budget this.

A formal budget was not adopted for the Tucker Guthrie Airport Board because this entity is a component unit of the fiscal court and the financial activity is not required to be included in the budget of the primary government. The fiscal court established this entity as a component unit, which is operated independently of the Harlan County Fiscal Court. This entity is included as discretely presented component unit on the county's financial statements.

**J. Related Organizations and Joint Ventures**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Harlan County Fiscal Court: Harlan County Public Library, Green Hills Water District, Black Mountain Water District, Cawood Water District, Harlan County Health Department, and Harlan County Extension District.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of Harlan County Fiscal Court and the City of Harlan: Planning and Zoning Commission.

**Note 2. Deposits**

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480 (1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The discretely presented component unit did not have a written agreement with the bank.

*Custodial Credit Risk.* Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2008, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Jail Canteen's deposits in accordance with the security agreement as follows:

- Uncollateralized and Unsecured \$9,952

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 2. Deposits (Continued)**

As of October 11, 2007, \$53,573 of the discretely presented component unit's bank balance was exposed to custodial risk as follows:

- Uncollateralized and Unsecured \$53,573

**Note 3. Receivables**

On May 2, 2005, Harlan County Fiscal Court agreed to make payments on a business building on behalf of the Industrial Development Authority. Originally, there was no signed agreement between the two entities. On May 22, 2009, the Industrial Development Authority signed an agreement retroactive back to May 2, 2005. The agreement documents the original intent of the relationship between the Harlan County Fiscal Court and the Industrial Development Authority. The Industrial Development Authority agreed to reimburse the Harlan County Fiscal Court for any payments made on their behalf including both principal and interest.

The Industrial Development Authority has \$238,189 in notes due the county for future principal payments on the loan. Also the Industrial Development Authority has past payments that were made on their behalf that includes principal and interest of \$124,799. In addition, there remains a \$100,000 note due from when the Industrial Development Authority was formed. As of June 30, 2008, the Industrial Development Authority balance due to the Harlan County Fiscal Court is \$462,988. The receivables are as follows:

	Current	Noncurrent	
	Asset	Asset	Total
Past Due	\$ 224,799	\$	\$ 224,799
Future Principal	18,915	219,274	238,189
	<u>\$ 243,714</u>	<u>\$ 219,274</u>	<u>\$ 462,988</u>

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 4. Capital Assets**

Capital asset activity for the year ended June 30, 2008 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,567,423	\$	\$	\$ 1,567,423
Total Capital Assets Not Being Depreciated	1,567,423			1,567,423
Capital Assets, Being Depreciated:				
Buildings	21,448,309			21,448,309
Equipment	296,764			296,764
Vehicles	1,998,214	163,620	(22,736)	2,139,098
Infrastructure	45,045,201	59,950		45,105,151
Total Capital Assets Being Depreciated	68,788,488	223,570	(22,736)	68,989,322
Less Accumulated Depreciation For:				
Buildings	(2,472,698)	(375,380)		(2,848,078)
Equipment	(64,849)	(53,418)		(118,267)
Vehicles	(1,461,792)	(134,663)	15,730	(1,580,725)
Infrastructure	(32,087,750)	(1,421,769)		(33,509,519)
Total Accumulated Depreciation	(36,087,089)	(1,985,230)	15,730	(38,056,589)
Total Capital Assets, Being Depreciated, Net	32,701,399	(1,761,660)	(7,006)	30,932,733
Governmental Activities Capital Assets, Net	<u>\$ 34,268,822</u>	<u>\$ (1,761,660)</u>	<u>\$ (7,006)</u>	<u>\$ 32,500,156</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Equipment	\$ 44,116	\$	\$	\$ 44,116
Vehicles		17,749		17,749
Total Capital Assets Being Depreciated	44,116	17,749		61,865
Less Accumulated Depreciation For:				
Equipment	(3,970)	(3,971)		(7,941)
Vehicles		(1,597)		(1,597)
Total Accumulated Depreciation	(3,970)	(5,568)		(9,538)
Total Capital Assets, Being Depreciated, Net	40,146	12,181		52,327
Business-Type Activities Capital Assets, Net	\$ 40,146	\$ 12,181	\$	\$ 52,327

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 4. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 225,089
Protection to Persons and Property	199,699
General Health & Sanitation	8,333
Social Services	782
Recreation	33,010
Roads, Including Depreciation of General Infrastructure Assets	<u>1,518,317</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,985,230</u>

Business-Type Activities

Jail Canteen	<u>\$ 5,568</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 5,568</u>

Capital asset activity for the discretely presented component unit for the year ended June 30, 2008 was as follows:

	Tucker Guthrie Airport Board			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$	\$ 458,524	\$	\$ 458,524
Construction In Progress	<u>592,804</u>		<u>(592,804)</u>	
Total Capital Assets Not Being Depreciated	<u>592,804</u>	<u>458,524</u>	<u>(592,804)</u>	<u>458,524</u>
Capital Assets, Being Depreciated:				
Buildings		416,702		416,702
Other Land Improvements		<u>243,562</u>		<u>243,562</u>
Total Capital Assets Being Depreciated		<u>660,264</u>		<u>660,264</u>
Less Accumulated Depreciation For:				
Buildings		(15,001)		(15,001)
Other Land Improvements		<u>(10,960)</u>		<u>(10,960)</u>
Total Accumulated Depreciation		<u>(25,961)</u>		<u>(25,961)</u>
Total Capital Assets, Being Depreciated, Net		<u>634,303</u>		<u>634,303</u>
Governmental Activities Capital Assets, Net	<u>\$ 592,804</u>	<u>\$ 1,092,827</u>	<u>\$ (592,804)</u>	<u>\$ 1,092,827</u>

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 4. Capital Assets (Continued)**

Depreciation expense was charged to functions of the discretely presented major component unit as follows:

Tucker Guthrie Airport Board	\$ 25,961
Total Depreciation Expense - Governmental Activities	<u>\$ 25,961</u>

**Note 5. Long-term Debt**

**A. General Obligation Improvement Bonds Series 2004**

On September 8, 2004, the county issued \$6,000,000 of General Obligation Bonds. These bonds were issued for the purpose of financing the acquisition, construction, and equipping of a new detention center facility. The bonds require two semiannual interest payments be made on March 1 and September 1 of each year beginning March 1, 2006. Principal payments are due on March 1 of each year until September 1, 2034. As of June 30, 2008, the principal amount outstanding was \$5,770,000.

Fiscal Year Ended June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest &amp; Fees</u>
2009	\$ 120,000	\$ 249,633
2010	125,000	245,957
2011	130,000	235,132
2012	135,000	237,495
2013	140,000	232,682
2014-2018	775,000	1,081,950
2019-2023	935,000	911,559
2024-2028	1,180,000	677,310
2029-2033	1,510,000	361,853
2034-2035	<u>720,000</u>	<u>35,040</u>
Totals	<u>\$5,770,000</u>	<u>\$ 4,268,611</u>

**B. General Obligation Improvement Bonds Phase II**

On April 27, 2005, the Harlan County Detention Center Public Properties Corporation and the county issued bonds in the amount of \$2,350,000 in order to finish constructing the Harlan County Detention Center.

The bonds require two semiannual interest payments be made on March 1 and September 1 of each year beginning September 1, 2006. Principal payments are due on March 1 of each year until September 1, 2035. As of June 30, 2008, the principal amount outstanding was \$2,270,000.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**B. General Obligation Improvement Bonds Phase II (Continued)**

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2009	\$ 40,000	\$ 99,443
2010	45,000	98,167
2011	45,000	96,705
2012	50,000	95,043
2013	50,000	93,293
2014-2018	280,000	436,198
2019-2023	360,000	371,557
2024-2028	445,000	282,740
2029-2033	550,000	170,088
2034-2036	405,000	30,875
Totals	<u>\$2,270,000</u>	<u>\$ 1,774,109</u>

**C. First Mortgage Revenue Bonds Series 2002**

On June 26, 2002, the Harlan County Justice Center Public Properties Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center and obtaining rental space for the AOC at the Justice Center. On July 16, 2002, the Harlan County Courthouse and Public Square Corporation issued First Mortgage Revenue Bonds in the amount of \$9,120,000 in order to construct the Harlan County Justice Center.

The Harlan County Justice Center Public Properties Corporation designated the County to act as its agent in order to plan, design, construct, manage, and maintain the Justice Center. The Harlan County Courthouse and Public Square Corporation expects annual rentals from the AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under terms of the lease, the AOC has agreed to pay directly to the paying agent bank the use allowances payments as provided in the lease. The lease agreement is renewable each year. The Harlan County Justice Center Public Properties Corporation is dependent upon the use of allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Justice Center by the AOC. The AOC with the execution of the lease has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until September 1, 2020, but the lease does not legally obligate the AOC to do so. As of June 30, 2008, the principal amount outstanding was \$7,685,000

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**C. First Mortgage Revenue Bonds Series 2002**

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2009	\$ 315,000	\$ 353,508
2010	325,000	341,696
2011	340,000	329,102
2012	350,000	315,502
2013	365,000	300,628
2014-2018	2,095,000	1,248,750
2019-2023	2,645,000	718,238
2024-2025	1,250,000	104,500
Totals	<u>\$7,685,000</u>	<u>\$ 3,711,924</u>

**D. Industrial Development Authority Building**

On May 2, 2005, the Harlan Fiscal Court entered into an agreement to make payments on behalf of the Industrial Development Authority (IDA). Principal and interest payments are monthly until June 7, 2017. The Industrial Development Authority is responsible for repaying the amount paid on their behalf. The principal balance as of June 30, 2008 is \$238,189. Debt service requirements for the fiscal years ending June 30, 2008 and thereafter are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 18,915	\$ 18,093
2010	20,460	16,548
2011	22,131	14,877
2012	23,903	13,105
2013	25,891	11,117
2014-2017	126,889	21,143
Totals	<u>\$ 238,189</u>	<u>\$ 94,883</u>

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**E. Sewer Lines**

On September 25, 2007, the Harlan Fiscal Court entered into a financing agreement in the amount of \$2,860,000 for the construction of sewer lines. Principal payments are due annually on September 20 and interest payments are due semiannually on March 20 and September 20. The obligation is scheduled to be paid off in September 2037. The principal balance as of June 30, 2008 is \$2,860,000. Debt service requirements for the fiscal years ending June 30, 2008 and thereafter are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 45,000	\$ 140,143
2010	45,000	138,320
2011	50,000	136,360
2012	50,000	134,273
2013	55,000	132,040
2014-2018	305,000	621,956
2019-2023	385,000	542,594
2024-2028	485,000	435,674
2029-2033	630,000	295,278
2034-2038	810,000	110,913
Totals	<u>\$2,860,000</u>	<u>\$ 2,687,551</u>

**F. Sheriff Vehicles**

In December 2007 the Harlan County Fiscal Court entered into a 4-year financing obligation with Leasing One Corporation for the purchase of four police cruisers. Principal and interest payments are due annually in December. The principal balance as of June 30, 2008 is \$61,490. Debt service requirements for the fiscal years ending June 30, 2008 and thereafter are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2009	\$ 19,313	\$ 3,695
2010	20,473	2,535
2011	21,704	1,304
Totals	<u>\$ 61,490</u>	<u>\$ 7,534</u>

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 5. Long Term Debt (Continued)**

Long-term activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 8,195,000	\$	\$ 155,000	\$ 8,040,000	\$ 160,000
Revenue Bonds	7,990,000		305,000	7,685,000	315,000
Bank Note Payable					
Financing Obligations	257,104	2,944,498	41,923	3,159,679	83,228
Governmental Activities					
Long-term Liabilities	<u>\$ 16,442,104</u>	<u>\$ 2,944,498</u>	<u>\$ 501,923</u>	<u>\$18,884,679</u>	<u>\$ 558,228</u>

**Note 6. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$90,957 in interest on financing obligations, \$364,946 in interest on revenue bonds, and \$354,400 in interest on general obligation bonds.

**Note 7. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 8. Insurance**

For the fiscal year ended June 30, 2008, Harlan County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**HARLAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(Continued)**

**Note 9. Estimated Infrastructure Historical Cost**

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2003 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. The estimate was used to calculate the infrastructure's historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through the current fiscal year. All infrastructure assets placed in service during the fiscal year ended June 30, 2003 and thereafter are recorded at actual historical cost.

**Note 10. Landfill Escrow**

This account is the result of a settlement reached between the State of Kentucky and Harlan County Fiscal Court to cover the costs of cleaning up violations associated with a landfill operated by the county. The money in this account is used for the purposes of cleaning up the landfill. Money was initially deposited and the State withdraws money as needed. As of June 30, 2008 the landfill is closed and the remaining balance in the account is \$43,047.

**Note 11. Prior Period Adjustments**

The beginning fund balance of the General Fund and Sinking Fund was increased by \$410,180 and \$60, respectively. The beginning fund balance of the Local Government Economic Development Fund was decreased by \$349,167.

The prior year net asset ending balance for the governmental and business-type activities has been restated for the following:

	<u>Governmental Activities</u>	<u>Business-Type</u>
Beginning Net Assets Prior Audit	\$ 30,632,324	\$ 114,691
Capital Asset Adjustment	(5,333,332)	(3,308)
Inclusion of Debt Adjustment	(257,104)	
Notes Receivable Adjustment	362,988	
Prior Cash Adjustment	61,074	
Adjusted Beginning Net Assets June 30, 2008	<u>\$ 25,465,950</u>	<u>\$ 111,383</u>

The Tucker Guthrie Airport Board had previously been omitted from the financial statements in prior years. The inclusion this year resulted in a prior period adjustment to the aggregate discretely presented component units of \$597,944.

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2008**



**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2008**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 2,393,200	\$ 2,410,649	\$ 3,347,815	\$ 937,166
In Lieu Tax Payments	30	30	36	6
Excess Fees	561,000	647,775	807,721	159,946
Licenses and Permits	130,000	179,060	246,384	67,324
Intergovernmental	1,269,800	1,442,673	1,028,323	(414,350)
Miscellaneous	30,000	69,026	98,183	29,157
Interest	25,000	35,680	53,795	18,115
Total Revenues	<u>4,436,030</u>	<u>4,817,997</u>	<u>5,642,837</u>	<u>824,840</u>
<b>EXPENDITURES</b>				
General Government	2,253,118	2,912,265	2,613,167	299,098
Protection to Persons and Property	24,230	48,827	44,059	4,768
General Health and Sanitation	190,525	3,230,357	2,498,408	731,949
Social Services		29,750	28,131	1,619
Airports	500,000	600,000	525,985	74,015
Debt Service	177,900	252,866	134,048	118,818
Administration	1,259,510	1,161,023	1,069,505	91,518
Total Expenditures	<u>4,705,283</u>	<u>8,535,088</u>	<u>6,915,186</u>	<u>1,619,902</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(269,253)</u>	<u>(3,717,091)</u>	<u>(1,272,349)</u>	<u>2,444,742</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Revenue Bond Proceeds		2,860,000	2,034,022	(825,978)
Transfers To Other Funds	<u>(480,747)</u>	<u>(480,747)</u>	<u>(480,747)</u>	
Total Other Financing Sources (Uses)	<u>(480,747)</u>	<u>2,379,253</u>	<u>1,553,275</u>	<u>(825,978)</u>
Net Changes in Fund Balance	(750,000)	(1,337,838)	280,926	1,618,764
Fund Balance - Beginning (Restated)	<u>750,000</u>	<u>1,337,838</u>	<u>3,191,797</u>	<u>1,853,959</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,472,723</u>	<u>\$ 3,472,723</u>

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2008**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
In Lieu Tax Payments	\$ 1,245	\$ 1,657	\$ 1,657	\$
Intergovernmental	1,264,000	1,281,887	1,532,419	250,532
Miscellaneous		1,353	1,353	
Interest	5,000	5,909	9,633	3,724
Total Revenues	1,270,245	1,290,806	1,545,062	254,256
<b>EXPENDITURES</b>				
Roads	1,817,594	1,826,948	1,221,843	605,105
Administration	418,625	429,832	287,760	142,072
Total Expenditures	2,236,219	2,256,780	1,509,603	747,177
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(965,974)	(965,974)	35,459	1,001,433
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	610,000	610,000	632,899	22,899
Total Other Financing Sources (Uses)	610,000	610,000	632,899	22,899
Net Changes in Fund Balance	(355,974)	(355,974)	668,358	1,024,332
Fund Balance - Beginning (Restated)	355,974	355,974	75,135	(280,839)
Fund Balance - Ending	\$ 0	\$ 0	\$ 743,493	\$ 743,493

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2008**  
**(Continued)**

<b>JAIL FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental	\$ 759,200	\$ 824,194	\$ 1,191,928	\$ 367,734
Charges for Services	24,000	25,385	38,186	12,801
Miscellaneous	39,425	72,989	120,305	47,316
Total Revenues	822,625	922,568	1,350,419	427,851
<b>EXPENDITURES</b>				
Protection to Persons and Property	1,260,778	1,539,972	1,420,185	119,787
Debt Service	508,800	508,800		508,800
Capital Projects		66,100	66,014	86
Administration	528,850	483,499	376,959	106,540
Total Expenditures	2,298,428	2,598,371	1,863,158	735,213
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,475,803)	(1,675,803)	(512,739)	1,163,064
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	1,475,803	1,675,803	512,739	(1,163,064)
Total Other Financing Sources (Uses)	1,475,803	1,675,803	512,739	(1,163,064)
Net Changes in Fund Balance				
Fund Balance - Beginning				
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2008**  
**(Continued)**

	<b>Local Government Economic Assistance Fund</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 2,075,000	\$ 2,075,000	\$ 2,665,415	\$ 590,415
Miscellaneous			500	500
Interest	15,000	15,000	35,091	20,091
Total Revenues	2,090,000	2,090,000	2,701,006	611,006
<b>EXPENDITURES</b>				
General Government	50,000	50,000	16,833	33,167
Protection to Persons and Property	80,000	80,000	46,901	33,099
General Health and Sanitation	352,699	435,628	393,642	41,986
Recreation and Culture	582,000	587,080	469,215	117,865
Administration	329,200	241,191	154,309	86,882
Total Expenditures	\$ 1,393,899	\$ 1,393,899	\$ 1,080,900	\$ 312,999
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	696,101	696,101	1,620,106	924,005
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	(1,596,256)	(1,796,256)	(1,168,192)	628,064
Total Other Financing Sources (Uses)	\$ (1,596,256)	\$ (1,796,256)	\$ (1,168,192)	\$ 628,064
Net Changes in Fund Balances	(900,155)	(1,100,155)	451,914	1,552,069
Fund Balances - Beginning	900,155	1,100,155	1,646,791	546,636
Fund Balances - Ending	\$ 0	\$ 0	\$ 2,098,705	\$ 2,098,705

**HARLAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2008**  
**(Continued)**

<b>Local Government Economic Development Fund</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental	\$ 4,000,000	\$ 4,000,000	\$ 2,272,544	\$ (1,727,456)
Total Revenues	4,000,000	4,000,000	2,272,544	(1,727,456)
<b>EXPENDITURES</b>				
Protection to Persons and Property	150,000	175,000	24,986	150,014
General Health and Sanitation	3,500,000	3,838,417	146,186	3,692,231
Social Services	85,000	155,000	1,525,487	(1,370,487)
Recreation and Culture	230,000	255,000	352,187	(97,187)
Roads		100,000	55,593	44,407
Debt Service		833	832	1
Capital Projects	50,000	418,750	320,261	98,489
Total Expenditures	4,015,000	4,943,000	2,425,532	2,517,468
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(15,000)	(943,000)	(152,988)	790,012
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			3,300	3,300
Total Other Financing Sources (Uses)			3,300	3,300
Net Changes in Fund Balances	(15,000)	(943,000)	(149,688)	793,312
Fund Balances - Beginning (Restated)	15,000	943,000	943,589	589
Fund Balances - Ending	\$ 0	\$ 0	\$ 793,901	\$ 793,901

**HARLAN COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2008**

**1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**2. Reconciliation of the General Fund**

Expenditures

Budgetary Basis	\$ 6,915,186
Plus: Financing Obligations - Sheriff Cruisers	84,498
Plus: Financing Obligations - Bond Administration, Trustee, and issuance Costs- Sewer Line	825,978
Balance - Modified Cash Basis	\$ 7,825,662

Other Financing Sources (Uses)

Budgetary Basis	\$ 1,553,275
Plus: Financing Obligations - Sheriff Cruisers	84,498
Plus: Financing Obligations - Bond Administration, Trustee, and issuance Costs- Sewer Line	825,978
Balance - Modified Cash Basis	\$ 2,463,751

**HARLAN COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2008**



**HARLAN COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2008**

	<b>Federal Grants Fund</b>	<b>Sinking Fund</b>	<b>911 Fund</b>	<b>Justice Center Public Properties Corporation Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 114,906	\$ 722,681	\$ 572,010	\$ 6,515	\$ 1,416,112
Total Assets	<u>114,906</u>	<u>722,681</u>	<u>572,010</u>	<u>6,515</u>	<u>1,416,112</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	\$	\$	\$ 1,719	\$	\$ 1,719
Unreserved:					
Debt Service Fund		722,681		6,515	729,196
Special Revenue Funds	<u>114,906</u>		<u>570,291</u>		<u>685,197</u>
Total Fund Balances	<u>\$ 114,906</u>	<u>\$ 722,681</u>	<u>\$ 572,010</u>	<u>\$ 6,515</u>	<u>\$ 1,416,112</u>

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**HARLAN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2008**

**HARLAN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2008**

	<b>Federal Grants Fund</b>	<b>Jail Construction Fund</b>	<b>Sinking Fund</b>	<b>911 Fund</b>
<b>REVENUES</b>				
Taxes	\$	\$	\$	\$ 381,699
Intergovernmental	41,000			
Interest	1,870	8,656	15,975	7,392
Total Revenues	<u>42,870</u>	<u>8,656</u>	<u>15,975</u>	<u>389,091</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property				301,608
General Health and Sanitation	41,000			
Debt Service			508,800	
Administration				8,505
Total Expenditures	<u>41,000</u>	<u></u>	<u>508,800</u>	<u>310,113</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,870</u>	<u>8,656</u>	<u>(492,825)</u>	<u>78,978</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			510,767	
Transfers To Other Funds		(10,766)		
Total Other Financing Sources (Uses)		<u>(10,766)</u>	<u>510,767</u>	
Net Change in Fund Balances	1,870	(2,110)	17,942	78,978
Fund Balances - Beginning (Restated)	113,036	2,110	704,739	493,032
Fund Balances - Ending	<u>\$ 114,906</u>	<u>\$</u>	<u>\$ 722,681</u>	<u>\$ 572,010</u>

**HARLAN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2008**  
**(Continued)**

<b>Justice Center Public Properties Corporation Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$	\$
669,946	381,699
578	710,946
670,524	34,471
	1,127,116
	301,608
	41,000
667,946	1,176,746
2,078	10,583
670,024	1,529,937
500	(402,821)
	510,767
	(10,766)
	500,001
500	97,180
6,015	1,318,932
\$ 6,515	\$ 1,416,112

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**COMPONENT UNIT OF HARLAN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2008**



**TUCKER GUTHRIE AIRPORT BOARD  
 COMPONENT UNIT OF HARLAN COUNTY  
 BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2008**

	<u><b>General Fund</b></u>
<b>ASSETS</b>	
Cash and Cash Equivalents	<u>\$ 13,602</u>
Total Assets	<u><u>\$ 13,602</u></u>

**FUND BALANCE**

Unreserved	<u>\$ 13,602</u>
Total Fund Balance	<u><u>\$ 13,602</u></u>

**Reconciliation to Statement of Net Assets:**

Total Fund Balance - Tucker Guthrie Airport Board	\$ 13,602
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	1,118,788
Accumulated Depreciation	<u>(25,961)</u>
Net Assets Of Tucker Guthrie Airport Board	<u><u>\$ 1,106,429</u></u>

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**COMPONENT UNIT OF HARLAN COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**



**TUCKER GUTHRIE AIRPORT BOARD  
 COMPONENT UNIT OF HARLAN COUNTY  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2008**

	<b>General Fund</b>
<b>REVENUES</b>	
Intergovernmental Revenues	\$ 525,985
Charges For Services	<u>12,610</u>
Total Revenues	<u>538,595</u>
<b>EXPENDITURES</b>	
Airports	4,148
Capital Projects	<u>525,985</u>
Total Expenditures	<u>530,133</u>
Excess of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>8,462</u>
Net Change in Fund	8,462
Fund Balances - Beginning	<u>5,140</u>
Fund Balances - Ending	<u><u>\$ 13,602</u></u>

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balance - Tucker Guthrie Airport Board \$ 8,462

Governmental Fund report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	525,984
Depreciation Expense	<u>(25,961)</u>

Change In Net Assets Of Tucker Guthrie Airport Board \$ 508,485

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**HARLAN COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**HARLAN COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Fiscal Year Ended June 30, 2008**

<u>Program Title</u>	<u>Federal CFDA No.</u>	<u>Award Expenditures</u>	<u>Total by CFDA No.</u>	
<b><i>U. S. DEPT. OF HOUSING AND URBAN DEVELOPMENT</i></b>				
<i>Passed Through KY Department for Local Government</i>				
Community Development Block Grants/State Program	14.228	\$ 41,000	\$ 41,000	
<b><i>U. S. DEPT. OF TRANSPORTATION</i></b>				
<i>Passed Through Kentucky Transportation Cabinet</i>				
Airport Improvements ( <i>T Hanger Project</i> )	20.106	23,147		
Airport Improvements ( <i>Fencing Project</i> )	20.106	22,304		
Airport Improvements ( <i>Obstruction Removal Project</i> )	20.106	435,598	481,049	**
<b><i>U.S. DEPT. OF HOMELAND SECURITY</i></b>				
<i>Passed Through KY Department of Military Affairs</i>				
Emergency Management Performance Grant	97.042	4,295	<u>4,295</u>	
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 526,344</u>	

*Tested as a Major Program or Cluster \*\**

**HARLAN COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2008**

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal activity of the Harlan County Fiscal Court is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

**NOTE B – SUBRECIPIENTS**

The following sub recipients' grants passed through the Harlan County Fiscal Court:

Tucker Guthrie Airport Board		
U.S. Department of Transportation	CFDA # 20.106	\$481,049

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



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The Honorable Joseph A. Grieshop, Harlan County Judge/Executive  
Members of the Harlan County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of Harlan County, Kentucky, as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 10, 2009. We issued an adverse opinion on the aggregate discretely presented component opinion unit because the financial statements of the Harlan County Industrial Development Authority, a discretely presented component unit, were not included in the financial statements. Harlan County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harlan County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harlan County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Harlan County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: 2008-01, 2008-02, 2008-03, 2008-04, 2008-05, 2008-06, 2008-07, 2008-08, 2008-09, 2008-10, 2008-11, 2008-12, and 2008-13.

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above as items 2008-01, 2008-02, and 2008-10 are material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Harlan County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs. These findings are as follows: 2008-14, 2008-15, 2008-16, 2008-17, 2008-18, 2008-19, 2008-20, 2008-21, 2008-22, 2008-23 and 2008-24.

Harlan County's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit their responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, and the Department for Local Government and is not intended to be and should not be used by anyone other than the specified parties.

Respectively Submitted,



Ross & Company, PLLC  
Certified Public Accountants

June 10, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



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The Honorable Joseph A. Grieshop, Harlan County Judge/Executive  
Members of the Harlan County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Harlan County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Harlan County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Harlan County's management. Our responsibility is to express an opinion on Harlan County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harlan County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Harlan County's compliance with those requirements.

In our opinion, Harlan County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Harlan County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Harlan County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control over Compliance (Continued)

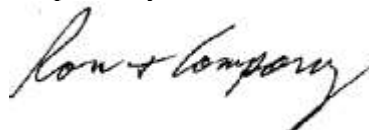
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as described above.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectively Submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC  
Certified Public Accountants

June 10, 2009

**HARLAN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2008**



**HARLAN COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2008**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the remaining fund information of Harlan County, Kentucky. An adverse opinion was expressed on the aggregate discretely presented component units.
2. Thirteen significant deficiencies relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report. Three significant deficiencies are also material weaknesses.
3. Eleven instances of noncompliance were disclosed during the audit.
4. There were no significant deficiencies relating to the audit of the major federal awards programs.
5. The auditor's report on compliance for the audit of the major federal awards programs for Harlan County expresses an unqualified opinion.
6. There were no audit findings relative to the major federal awards programs for Harlan County are reported in Part C of this schedule.
7. The programs tested as major programs were: U.S. Department of Transportation – Airport Improvement Program – CFDA #20.106.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Harlan County was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES**

**2008-01      The County Should Improve Their Internal Control Procedures**

The County has a lack of segregation of duties. During the course of the audit, we observed that multiple people open the mail and deliver money to be deposited to the treasurer. Also, there does not appear to be anyone other than the treasurer reviewing and/or reconciling bank accounts. Receipts and recording procedures should have check and balances in place so that any one person does not receive, record, and reconcile transactions. Due to the entity's diversity of official operations, small size, and budget restrictions the County has limited options for establishing an adequate segregation of duties however there are procedures that can be established to compensate. We recommend the following procedures be implemented to strengthen the internal control weaknesses:

- An independent person should list all receipts and agree them back to the treasurer's receipts ledger. Also, the employee opening the mail should keep a listing of all checks received for that day, detailing the date received, the check amount, whom it is from, and what the check is for.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. The person by initialing the bank statement can document this.
- An independent person should review the treasurer's bank reconciliations for accuracy. The person completing this review should sign or initial the bank reconciliation to document that a review was performed.
- An employee independent of check writing and posting duties should match purchase orders to checks and invoices. The employee who signs the checks should also cancel the purchase orders and invoices to ensure invoices are not paid twice.
- To have better internal controls, it is considered a best practice to keep the receipt of cash, the disbursement of cash, and the posting of cash to the ledgers delegated to separate individuals.

We recommend the County implement these procedures. This will help segregate the duties of the County Treasurer as well as other employees.

**Harlan County**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2008 (Continued)**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:  
(Continued)

2008-01      The County Should Improve Their Internal Control Procedures (Continued)

*Judge/Executive Joseph Grieshop's Response: The treasurer has implemented further internal controls to comply with these recommendations..*

2008-02      Material Prior Period Adjustment

Due to errors and omissions associated with the prior year that included accounts that were not included in the fund balances, an overstated fund balance, a debt instrument that wasn't included, note receivable that was not accounted for, and a miscalculation of asset depreciation, the following adjustments were made:

	<u>Government Activities</u>	<u>Business Type</u>
Beginning Net Assets Prior Year Audit	\$30,632,324	\$114,691
Capital Asset Adjustment	(5,333,332)	(3,308)
Inclusion of Debt Adjustment	(257,104)	
Notes Receivable Adjustment	362,988	
Prior Cash Adjustment	61,074	
Adjusted Beginning Net Assets	<u>\$25,465,950</u>	<u>\$111,383</u>
As of June 30, 2008		

The net prior cash adjustment is made up of the following:

Increase to General Fund	\$410,180
Increase to Sinking Fund	\$ 60
Decrease to LGEDF.	\$ 349,167

*Judge/Executive Joseph A Grieshop's Response: As stated was caused by errors from prior years.*

2008-03      Jail Lacks Complete Documentation Of Expenditures

In the test of canteen expenditures, complete and adequate supporting documentation was missing from some of the expenditures selected for testing. Primarily, original invoices were missing from the files for equipment that was purchased. We recommend the Jail have and maintain all original invoices and supporting documentation in their files.

*Jailer Curt Stallard's Response: All invoices and documentation will be maintained in correct files.*

*Judge/Executive Joseph A. Grieshop's Response: The Jailer will comply with this recommendation.*

**Harlan County**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2008 (Continued)**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:  
(Continued)

2008-04      Invoices Should Have Approval Prior To Payment

In the test of jail canteen expenditures, we noted that several invoices did not have proper evidence of approval. We recommend all invoices be reviewed, approved, and signed by an authorized individual prior to payment.

*Jailer Curt Stallard's Response: I am now initialing all invoices as they are presented.*

*Judge/Executive Joseph A. Grieshop's Response: The Jailer will comply with this recommendation.*

2008-05      Segregation Of Duties Should Be Strengthened In Regards To The Jail Canteen

The system of internal control should be reviewed to better segregate the initiating, authorizing, receiving, paying, and recording functions of the jail canteen. Although it is understood that a small staff prohibits a complete segregation of duties and compensating controls, we recommend that each function be periodically reviewed to promote better segregation of duties and improve compensating controls.

*Jailer Curt Stallard's Response: We will attempt to further segregate duties and improve compensating controls.*

*Judge/Executive Joseph A. Grieshop's Response: The Jailer will comply with this recommendation.*

2008-06      The County Should Have Better Controls Over Voided Checks

During the review of voided checks auditors noted that several voided checks were included in the files. While the voided checks were marked "void," the checks were not defaced or otherwise rendered unusable; thus creating a potential for someone who can gain access to the check to misappropriate cash by completing the data on the check for fraudulent purposes. To reduce this risk, we recommend the County adopt a policy to have better control over voided checks and ensure that all voided checks be properly defaced to ensure that they be rendered useless.

*Judge/Executive Joseph A. Grieshop's Response: The county now removes the signature line of the check along with defacing and marking the check void.*

**Harlan County**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2008 (Continued)**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:  
(Continued)

2008-07      The County Should Improve Procedures Over Expenditures and Cash Disbursements

During our testing of expenditures, we noted that original invoices were not always being maintained. In addition, there were multiple instances where there were no purchase orders and purchase orders did not have the proper authorization.

Good internal controls dictate that adequate supporting documentation be maintained for all receipts and disbursements. The "Uniform System of Accounts" as stipulated by the Department of Local Governments (DLG) requires counties to maintain adequate supporting documentation for all county expenditures. Copies of invoices and faxed invoices are unacceptable. All original invoices should agree to corresponding purchase orders, and the purchase orders should not be dated after the purchase was made.

Proper accounting procedures and internal control policies should be in place. All expenditures should be reviewed and approved by the Fiscal Court prior to payment. Vendors should be paid from original invoices and not statements mailed periodically from the vendor. All invoices should be cancelled upon payment. Purchasing procedures should be in accordance with DLG requirements, specifically, purchase orders must include the appropriation account number to which the claim will be posted and proper approval by management or the department head. Vendor names, departments, product descriptions, quantities, and prices should be on each purchase order issued in order for the purchasing procedures to be effective. Purchase orders should have proper approval prior to the expenditure transaction. Sound management and a good internal control structure are essential for the achievement of full oversight and accountability.

Lack of proper accounting practices and internal controls increases the risk that misstatements of financial activity and/or fraud will occur and go undetected by the County. Without proper procedures in place to mitigate the risk, the County is exposing public resources to potential misstatements and/or fraud.

*Judge/Executive Joseph A. Grieshop's Response: The county is now maintaining and paying only from original invoices. Purchase order will be done in a proper manner as well.*

2008-08      The County Should Ensure That Sublease Agreements Are Performed When Applicable

During the audit we found that the county was paying debt associated with an industrial building on behalf of the Industrial Development Authority. It was implied but not in writing that the Industrial Development Board would pay the County back. In May 2009 the County entered into a sublease agreement that included the retroactive payments made by the County on behalf of the Industrial Development Authority is paid back.

We recommend that the Fiscal Court enter into written sublease agreements when applicable and to collect money from the associated sublease when available. The Fiscal Court should consult with the County Attorney for future guidance.

*Judge/Executive Joseph A. Grieshop's Response: The county has since entered an agreement with the IDA board and will enter necessary agreements in the future.*

**Harlan County**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2008 (Continued)**

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

(Continued)

2008-09      Outstanding Checks In Excess Of Six Months Old Should Be Voided And Reissued If Necessary

During auditing procedures we found that the County has several outstanding checks that are in excess of six months old. We recommend that checks that are in excess of six months old be voided and reissued if necessary.

*Judge/Executive Joseph A. Grieshops's Response: The treasurer will void all checks in excess of six months and reissue if necessary.*

2008-10      The County Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements, Inventory Capital Assets Periodically, And Review Insurance Policy Coverage Thresholds

The County did not have a completed capital asset schedule for fiscal year ended June 30, 2008. A list of capital asset additions and disposals were not properly maintained. A schedule of additions should be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, and the amount paid to put the asset in service. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. Further, we believe that the capital asset listing should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing. As assets are disposed of they should be removed from the listing. We recommend that the County maintain complete and accurate capital assets schedules to comply with GASB 34 requirements.

The Fiscal Court should take a physical inventory of its capital assets on a regular basis (such as every two to three years) or at the beginning of a new administration to ensure that only active, in-service machinery and equipment is included on the County's financial statements. This will ensure that fixed assets are properly stated and that depreciation is being calculated from a reliable listing. In addition, we recommend that insurance policies be reviewed for coverage limitations and amend as necessary.

*Judge/Executive Joseph A. Grieshop's Response: We will require each county department to give the treasurer a list of inventory on June 30 of each year so we can further comply with GASB 34 & maintain an accurate and complete list of assets.*

2008-11      The County Should Strengthen Controls Over Employee Timesheets

During the testing of payroll, we noted instances of time sheets that were not signed by the employee and/or supervisor. According to KRS 337.320, "Every employer shall keep a record of the hours worked each day and each week by each employee." Good internal controls dictate that all timesheets have supervisory approval. In order to strengthen controls over payroll and to properly account for all time worked for each employee we recommend that employees sign and supervisors approve each timesheet.

*Judge/Executive Joseph A. Grieshop's Response: Employees and supervisors are now verifying the employee hours worked by signature on the employee's time card.*

**Harlan County**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2008 (Continued)**

SIGNIFICANT DEFICIENCIES - DISCRETELY PRESENTED COMPONENT UNIT:

2008-12      No Annual Accounting Presented To The Fiscal Court

The Tucker Guthrie Airport Board is a component unit of the Harlan County Fiscal Court. As such, the Fiscal Court is due an annual reporting of the results of operation and financial condition at year-end. Such reporting would consist of the Profit & Loss Statement generated by the QuickBooks accounting software. Annual reporting promotes Fiscal Court oversight and assist in planning and budgeting between the two. We recommend the Board report to the fiscal court, on an annual basis, its results of operation and financial condition.

*Judge/Executive Joseph A. Grieshop's Response: I will require the board to present monthly statements to the fiscal court as well as an annual statement.*

*Tucker Guthrie Airport Board's Response: No Response.*

2008-13      Invoices Lack Evidence Of Proper Approval

Paid invoices tested for compliance showed no evidence of approval or authorization to pay. We recommend all expenditures be properly initiated, authorized and approved prior to actual payment. Such approval for payment should be outside of the initiation, authorization and payment process.

*Judge/Executive Joseph A. Grieshop's Response: I will inform the board and require them to use proper channels to pay their bills correctly.*

*Tucker Guthrie Airport Board's Response: No Response.*

STATE LAWS AND REGULATIONS - PRIMARY GOVERNMENT:

2008-14      The County Should Annually Review The Administrative Code And Make Any Changes Or Revisions They Deem Necessary

KRS 68.005 mentions that the Fiscal Court should review the Administrative Code annually before the end of the fiscal year. We recommend that the Fiscal Court review the Administrative Code, Ethics Code and Personnel Policy and then make necessary changes and modifications as appropriate. The review of the Administrative Code should be reflected in the minutes of the Fiscal Court.

*Judge/Executive Joseph A. Grieshop's Response: We review the administrative code each June and make changes as necessary. We will be diligent in updating the code and reflecting these changes in the fiscal court minutes.*

**Harlan County**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2008 (Continued)**

STATE LAWS AND REGULATIONS - PRIMARY GOVERNMENT: (Continued)

2008-15      The County Should Comply With KRS 64.140, Which Requires That Invoices Be Paid Within 30 Working Days

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During the course of our audit, we found that several invoices were not paid in a timely manner. Several expenditures tested were not paid within the statutory time frame of thirty (30) days. KRS 65.140(2) states that all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice except when payment is delayed because the purchasers has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. It also states that if a payment of invoices exceeds 30 days, a 1% interest penalty should be added. We recommend the county comply with KRS 65.140 by paying invoices within thirty (30) working days.

*Judge/Executive Joseph A. Grieshop's Response: We continue to make every effort to pay invoices within 30 working days and will comply with the statute.*

2008-16      The County Should Require All Employees To Maintain Timesheets

During our testing of payroll, we noted that the Road Supervisor, County Treasurer, and E-911 Director did not maintain timesheets. According to KRS 337.320, "every employer shall keep a record of the hours worked each day and each week by each employee."

We recommend the Fiscal Court ensure employees maintain timesheets that are properly approved by supervisors. Timesheets should also include any approved time off including vacation and sick time.

*Judge/Executive Joseph A. Grieshop's Response: The treasurer has created a timesheet in excel format to be used by salaried employees to document their hours worked. This sheet will be turned into the judge executive's office after each month.*

2008-17      County Employees Should Be Properly Bonded Per KRS 68.210

KRS 68.210 requires officials and employees who handle public funds obtain a bond for an amount covering the maximum amount they may have under their control at one time. Currently, there are several employees including the accounts payable clerks, payroll clerk, and animal control officer that are not bonded under the requirements prescribed in KRS 68.210. We recommend the County acquire bonds for each employee who handles or cares for public funds.

*Judge/Executive Joseph A. Grieshop's Response: We are currently in the process of bonding all employees who handle public funds.*

**Harlan County**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2008 (Continued)**

STATE LAWS AND REGULATIONS - PRIMARY GOVERNMENT: (Continued)

2008-18      County Judge/Executive Or Designated Person Should Keep And Maintain Required Records

The Judge/Executive does not maintain an appropriation ledger that is separate from the treasurer, and as a result does not reconcile monthly with the treasurer as required by Kentucky Revised Statutes and The Department for Local Government Policy Manual. Also, purchase orders are not issued for every expenditure.

We recommend the following procedures and recommendations be followed:

- Maintain an appropriation ledger
- Reconcile the appropriation ledger with the treasurer's appropriation ledger at least once a month
- Issue purchase orders and maintain a purchase order log (purchase orders should be properly authorized)

*Judge/Executive Joseph A. Grieshop's Response: I will ensure my office complies with this recommendation.*

2008-19      The County Should Present Complete And Accurate 4<sup>th</sup> Quarter Reports

Testing of the bank reconciliations noted three accounts that were not included on the 4<sup>th</sup> Quarter Report. In addition, disbursements from these accounts are being performed without Fiscal Court approval by the Army Corps. of Engineers. According to KRS 68.275 and KRS 68.360 all monies should be accurately accounted for including cash balances, receipts, and disbursements from all accounts in control or name of the county. Also, all disbursement should be made with prior approval of the fiscal court.

We recommend that all financial activity be accounted for properly and disbursements have proper authorization before being made.

*Judge/Executive Joseph A. Grieshop's Response: The county provided the report in the same format as had been done for the last several years. In light of new information, we have amended our fiscal year 2009 budget to include the 3 accounts in question and have also issued a standing order for expenditures from those funds for fiscal year 2010.*

2008-20      The Jailer Should Have His Name Removed From County Vehicles

Kentucky Revised Statutes prohibit elected official names being displayed on county vehicles. During the course of the audit it was observed that various Detention Center vehicles had the Jailer's name on them. We recommend the Jailer comply and remove his name from county owned vehicles.

*Jailer Curt Stallard's Response: The jailer will comply with this recommendation.*

*Judge/Executive Joseph A. Grieshop's Response: The jailer will comply with this recommendation.*

**Harlan County**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2008 (Continued)**

STATE LAWS AND REGULATIONS - PRIMARY GOVERNMENT: (Continued)

2008-21      Jailer Should Prepare And Submit An Annual Canteen Report To The Fiscal Court

Pursuant to KRS 441.135(2), the Jailer is to prepare and submit an annual Canteen report to the fiscal court. We noted the Jailer does submit monthly reports to Fiscal Court, a yearend report is still required per KRS. A sample reporting format from the Kentucky Department of Corrections has been given to your staff and software provider. We recommend that the Jailer submit accurate and properly formatted annual canteen reports to the County Treasurer after fiscal year end.

*Jailer Curt Stallard's Response: We are working with our software company to be able to prepare an annual report to accompany our monthly reports.*

*Judge/Executive Joseph A. Grieshop's Response: The jailer will comply with this recommendation.*

2008-22      The County Should Update Employee Personnel Files And Maintain Current And Complete Personnel Files

During the audit, we observed that personnel files are not being kept current and in some instances were incomplete. Comprehensive personnel files compile data for all employees in one area. A complete file should be prepared for all new employees. We recommend that the following items be in an employee's personnel file and be maintained by an individual who does not have payroll preparation responsibilities.

- Signed and dated application of employment.
- Form I-9 Employment Eligibility Verification.
- Date of hire.
- Approved pay rate (updated as changes occur).
- Signed W-4 or K-4 forms.
- Insurance and other benefits election forms.
- Beneficiary designation form.
- Employee's current address and phone number.
- Next of kin's or other emergency contact's name, address, and current daytime phone number.
- Employee evaluations.
- Benefit election forms for terminated or retired employees.

We recommend that the County review employee files and update and complete documentation where deemed necessary.

*Judge/Executive Joseph A. Grieshop's Response: We are currently in the process of updating all personnel files and have created a checklist of all information to be maintained on all employees.*

**Harlan County**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2008 (Continued)**

STATE LAWS AND REGULATIONS - DISCRETELY PRESENTED COMPONENT UNIT:

2008-23      Policies & Procedures Manual

During the audit, we noted the Tucker Guthrie Airport Board did not have a formal policies and procedures manual. We recommend the Board adopt a Policies & Procedures Manual. Such manual would define Board duties, obligations and responsibilities as well as address routine and emergency airport operational and accounting policies and procedures. The Manual should be reviewed at least annually by the current board and amended as required. The Federal Aviation Administration and neighboring airports of similar size may be of assistance in establishing a basic manual to begin with.

*Judge/Executive Joseph A. Grieshop's Response: I will request and mandate the board to produce and provide said manual.*

*Airport Board's Response: No Response.*

2008-24      Tucker Guthrie Airport Board Does Not Have A Written Security Agreement

According to KRS41.240, all public funds should be sufficiently pledged and have a written security agreement to protect public funds. We recommend that the Tucker Guthrie Airport Board obtain a written security agreement with their financial institution.

*Judge/Executive Joseph A. Grieshop's Response: The Board will comply by obtaining a written security agreement.*

*Airport Board's Response: No Response*

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Reference Number 2007-01: The County should properly use purchase orders on all required expenditures. Not corrected. Reported as Finding 2008-18

Reference Number 2007-02: The County should obtain bids for all expenditures over \$20,000. (Corrected)

Reference Number 2007-03: The County Should maintain its schedule of assets. Not Corrected. Reported as Finding 2008-10

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**HARLAN COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2008**

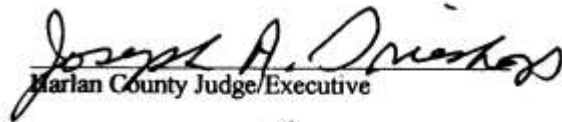
Appendix A



**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAM**  
**HARLAN COUNTY FISCAL COURT**

For The Fiscal Year Ended June 30, 2008

The Harlan County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program and Local Government Economic Development program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
Harlan County Judge/Executive

  
Harlan County Treasurer

